

Annual Report to the Board of Land Commissioners

By the
Endowment Fund Investment Board



November 15, 2007

State of Idaho Endowment Funds

Financial Summary

Fiscal Year 2007

Compared to the previous year:

- Total fund balances increased \$188 million, or 20%, to a record high of \$1.14 billion
- Earnings reserve balances increased \$68 million, or 75%, to a record high of \$160 million
- Receipts from endowment lands rose to \$77 million, a 12% increase
- Distributions to beneficiaries (excluding Cap Perm and net of a \$4.6 million contribution from the General Fund in FY2006), rose 0.2% to \$36 million

Total investment return, before fees, was 16.6% for the year, 12.4% annualized for the last three years, and 11.1% annualized for the last five years.

Total EFIB expenses, including investment manager fees, were 0.37% of year-end net assets.

This is a summary of the FY2007 financial statements of the endowment funds that were distributed to the Land Board in October.

Fiscal Year 2007 Audit Summary
State of Idaho Endowment Funds
Administered by the Endowment Fund Investment Board

1. Independent Auditor's Report on the financial statements (page 1)
 - Unqualified opinion – all the assets that should be in the fund have been accounted for
2. Independent Auditor's Report on compliance and internal controls (page 26)
 - Found no items to report:
 - No instances of noncompliance with laws and regulations
 - No material weaknesses or significant deficiencies in our internal controls

Submitted by:
R. John Taylor
Chairman, Audit Committee
Endowment Fund Investment Board

Status of compliance with Investment Policy

The Endowment Fund Investment Board maintains an Investment Policy for the overall fund and has established related contractual compliance guidelines for each investment manager.

During fiscal year 2007 there were no material violations of these policies and compliance guidelines, with the exception of the discovery during the year that there was a discrepancy between state law and the federal Morrill Act, which was resolved. The Investment Policy was last reviewed and revised at the EFIB's February 2007 meeting.

Board meeting report

Meetings held

During the period November 2006 thru October 2007, the Endowment Fund Investment Board held:

- 4 Regular Board Meetings
- 2 Special Board Meetings
- 2 Audit Committee Meetings
- 1 Compensation Committee Meeting
- 2 Executive Committee Meetings
- 2 Ad Hoc Consultant Search Committee Meetings

Attendance

For the six board meetings held, an average of 89% of the board members attended. Six members attended all meetings and no member had less than 50% attendance.

Special expertise

- A deputy attorney general representing the EFIB was present for all six board meetings.
- The board's asset consultant made a report at four of the regular board meetings.

Excerpt of:
Strategic Plan
FY2008 and Beyond

**Endowment Fund Investment
Board
Of the State of Idaho**



Finalized August 9, 2007
***Excerpt prepared for the Board of Land
Commissioners, November 15, 2007***

State statute requires every agency, including the EFIB, to update their Strategic Plan annually. This an excerpt of the Mission, Goals, Objectives and performance measurement sections relevant to the management of the endowment funds

Mission of the Endowment Fund Investment Board

Provide professional investment management services to our stakeholders consistent with our constitutional and statutory mandates.

Goals

We will provide good investment advice and the tools for implementing that advice. As our clients' individual needs require, we will:

- Develop a prudent long-term investment strategy
- Select the best portfolio managers and other agents to execute that strategy
- Diligently evaluate performance over time
- Develop an effective spending policy
- Help them fulfill their fiduciary responsibilities and communicate with their stakeholders

For our employees, we will:

- Create a work environment which motivates and retains a knowledgeable and professional staff

Strategic Plan FY2008 and Beyond

EFIB Objectives

Objectives for the Endowment Funds

- Seek new approaches to improve portfolio risk/return characteristics and cost/benefit ratios
- Meet or exceed the endowment fund benchmarks
- Review asset allocation and spending policy by May, 2008
- Recommend a new (or reconfirm the current) Spending Policy to the Land Board by August, 2008
- Avoid reductions in total endowment distributions
- Long-term, increase distributions to 4% of the value of the endowment funds plus the net cash earnings of the endowment lands while at the same time, growing Earnings Reserves to protect distributions from temporary shortfalls in revenues
- Refine the process for granting school bond guarantees and clarify the interest rate required in statute – confer with appropriate stakeholders and prepare legislation for introduction in January 2009

Objectives for our employees:

- Build relationships with other key agencies
- Train/cross-train the Administrative Assistant, the Investment Officer, and the Senior Financial Specialist in key financial and investment due diligence tasks

Strategic Plan – Performance Measures

Performance Measure/Benchmark	2004	2005	2006	2007	4-Year Average
1. ABSOLUTE RETURN (net of fees):					
Endowment Fund - Real Return	13.5%	7.0%	6.5%	13.5%	10.1%
<i>Real return (net of inflation) greater than 4%</i>					
2. RETURN VS. BENCHMARK (net of fees):					
ENDOWMENT FUND - Total Return	16.8%	9.6%	10.8%	16.2%	13.3%
Benchmark	14.9%	8.6%	8.6%	16.7%	12.1%
Excess	1.9%	1.0%	2.2%	-0.5%	1.2%
<i>Exceed benchmark (56% Russell 3000, 14% EAFE, 30% Lehman Aggregate) on a risk-adjusted basis</i>					
3. RETURN VS. PEERS (gross of fees):					
ENDOWMENT FUND - Total Return	17.1%	9.9%	11.2%	16.6%	13.6%
Asset Allocation Adjusted Ranking	16.5%	9.0%	9.2%	17.2%	12.9%
Excess	0.6%	0.9%	2.0%	-0.6%	0.7%
<i>Exceed the median of peers on a risk adjusted basis</i>					
ENDOWMENT FUND - Total Return	17.1%	9.9%	11.2%	16.6%	13.6%
Public Funds Universe	15.1%	9.3%	10.4%	17.2%	12.9%
Excess	2.0%	0.6%	0.8%	-0.6%	0.7%
<i>Exceed the median of peers on a risk adjusted basis</i>					
4. The length of time that the Public School Permanent Fund is below the loss benchmark	4 yrs	5 yrs	0 yrs	0 yrs	
<i>Less than 10 years below the cumulative loss benchmark</i>					
5. Change in distribution to beneficiaries	\$55.1 M.	\$37.4 M.	\$35.7 M.	\$36.3 M.	2008: \$38.6 M.
<i>No reduction in the total Endowment Distribution</i>					2009: \$42.4 M.